Market Enhancement for Water-Efficient Products
Stakeholder Meeting
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Introduction

It is my pleasure to be able to kick-off this first stakeholder meeting to explore ways to enhance the market for water-efficient products. We are very excited about building on our existing successes in water efficiency and moving in a new direction. We are eager to hear what you folks have to say about the opportunities and challenges in front of us.

Overview

First, let me tell you how we got to this point. A little over a year ago, EPA issued a report that analyzed the gap between clean water and drinking water investment needs and current levels of funding for the next 20 years. Our analysis shows that if investment in water infrastructure does not increase, the gap between needs and investments over the next 20 years is potentially daunting: our mid-range estimate for the clean water capital payment gap is $122 billion; and our mid-range estimate for the drinking water capital

payment gap is $102 billion. As with any estimate, there is uncertainty in the analysis. For example, if we assume a revenue and spending growth rate of 3% per year above inflation, our mid-range estimate of capital shortfall drops to $21 billion for clean water and $45 billion for drinking water. Obviously, assumptions are very important – but so are choices. It is clear that we all must take actions now to help reduce this payment gap for water infrastructure.

The Four Pillars of Sustainable Water Infrastructure

We're suggesting four ways to meet the challenges our aging infrastructure presents – I frequently characterize these as the pillars of sustainable water infrastructure. The first three pillars are:

- Better Management -- using sustainable management systems such as asset management techniques and environmental management systems to improve performance and reduce costs. Two good examples of this are Orange County Sanitation District, who invested in asset management planning and reduced the estimated life cycle cost of their capital improvement program by $600 million at a return of ten times their investment; and Seattle Public Utilities, who used asset management planning to reduce their approved capital budget by 13%, and their approved operating budget by 7% for 2004.

- Full Cost Pricing and conservation pricing -- pricing that recovers all of the costs of building, operating, and maintaining a system is absolutely essential to achieving sustainability. Conservation and seasonal rates can help reduce peak water use which is the design basis for many water facilities.
- The Watershed Approach – meaning broad stakeholder involvement in coordinated management of watershed resources, source water protection, improved site design for erosion control and stormwater management, and many other aspects of water resource management, such as trading. This allows targeting strategic, cost-effective actions to meet water quality standards.

But we are here today to discuss the fourth pillar – using water more efficiently – and what actions EPA needs to take to encourage water efficiency.

How EPA is Assisting

Our proposed program to bolster the market for water-efficient products is an outgrowth of our previous water efficiency programs and policies designed to help states, water systems, and wastewater facilities meet the infrastructure challenges of the future. Recently I've made two other announcements in the water efficiency area that should prove helpful:

- We have clarified the eligibility of water efficiency measures under the Clean Water and Drinking Water State Revolving Fund programs. A new pamphlet explains water efficiency eligibilities under both funding programs. This will give states the flexibility to use either of the State Revolving Funds to provide low interest loans for equipment retrofit and rebate programs.
- We are proposing to change the regulatory policy for apartment buildings to encourage them to submeter apartments and bill tenants separately for water. Apartment dwellers need to be aware of how much water they use and the cost of that water. That proposal was published in the Federal Register on August 28, 2003 with a 60-day comment period. We welcome your input.

By the way, both of these documents, and many other of our water efficiency publications, are available for you at the registration table.

While the primary goal of our water efficiency efforts is to help reduce infrastructure costs, at the same time we are helping to conserve water supplies, maintain healthy aquatic habitats, and save energy. It has only been relatively recently – in the last 20 years or so – that water demand management has been seriously considered as a water infrastructure development tool in addition to a water availability tool. That our friends here from Canada, one of the most water-rich countries in the world, are keenly

interested in a labeling initiative, is testimony that water infrastructure cost concerns are becoming a strong driver for water efficiency programs no matter what the climate.

If we are to sustain the water infrastructure that is so important to the health of people and the environment, we must be smarter about water use. We must manage demand, reclaim and reuse municipal wastewater, recycle industrial process water, and begin to think in a more integrated fashion about water management. We've seen the effect on water use of broad-based municipal water efficiency programs that combine full-cost pricing and conservation pricing structures with technical assistance and incentive programs. I'm told that there is an informal, but elite, club in the Water Conservation Division of the American Water Works Association called the "20% Club." To be a member of the club you must represent a water system that has achieved at least a 20% reduction in per capita water use.

Seattle Public Utilities is a member of this club, and they are represented here today. Seattle uses a seasonally adjusted, increasing block rate structure, putting them in the forefront of using price signals to promote water conservation. Seattle's many water efficiency programs concentrate on water-efficient equipment for residential and commercial customers. The savings from their commercial efficiency program was accomplished at half the cost of developing new infrastructure. And they tell us that 20% is not the upper bound - that even more can be cost-effectively saved.

We want the 20% club to grow and flourish. Hundreds of millions of dollars of infrastructure costs have been saved by enlightened water utilities through efficiency programs. Imagine the amount that could be reduced or deferred if all systems belonged to the 20% Club.

Enhancing the Market for Water-efficient Products

We have done enough investigation to determine that there is a strong potential to save significant amounts of water and energy through labeling or other market enhancement approaches such as voluntary standards and design competitions. But we have a lot of market research ahead of us to determine which approaches are most suitable for the various technology areas. Our proposed national market enhancement program for water-efficient products aims to increase water efficiency by:

- helping consumers identify and understand the many advantages of water-efficient products for residential or commercial use,
- motivating manufacturers to produce more competitive water-efficient products, and
- encouraging and helping distributors, retailers, and local water utilities to promote these products.

As our Energy Star colleagues have taught us, there are several criteria to consider before focusing a market program on a specific line of products:

- Can significant national water savings be achieved?
- Are there several product options available to achieve water efficiency?
- Are product performance and convenience maintained with increased water efficiency?
- Can product water use and performance be measured and verified with testing?
- Will labeling effectively differentiate products and be visible for purchasers?
- Will purchasers recover their investment in increased water/energy efficiency in a reasonable time period?

If these criteria can't be met for a particular category of products, then other approaches should be considered to enhance product availability before resources are spent on marketability.

The types of products the Agency would consider evaluating include plumbing products, appliances, landscape irrigation devices, commercial kitchen equipment, and other products for commercial use. We will be careful to proceed in areas where our efforts would have clear benefits above and beyond those from activities already under way, such as the Energy Star program or national plumbing product standards.

If our proposed program achieves its objectives, then the nation will reap the multiple benefits of efficient water use: infrastructure cost reduction, water supply

preservation, energy use reduction, and aquatic habitat protection. But we cannot succeed without your help. You folks are getting on at the ground floor of the program development process, and we seek to build the program together with you.

I want to thank you for coming and extend my wishes for a productive meeting.